

FINANCIAL MANAGEMENT

ISSUES

FY 1996 marks the sixth year that Army and the Defense Finance and Accounting Service-Indianapolis Center (DFAS-IN) have prepared audited financial statements in accordance with the Chief Financial Officers (CFO) Act of 1990, as amended by the Government Management Reform Act (GMRA) of 1994. Each of the previous audit reports served to highlight the Army's progress in complying with the requirements of the CFO Act. These reports also serve as a constant reminder that we are years away from reliable, integrated financial systems and processes required to achieve full compliance with the Act. The auditors have been unable to express an opinion on the reliability of the data in the Army's statements; however, each successive audit has documented significant improvements in accounting controls, processes, and systems.

Army senior leadership is committed to improving financial management. Army and DFAS continue working together to resolve issues identified in past audits and to improve the reliability of financial data. Joint financial and functional teams are developing and implementing interim measures to address system deficiencies that require long-term fixes, such as inadequate integration or interfaces between the accounting system and personnel, pay, and property systems. These improvements will provide better financial information to aid decision makers in allocating scarce budgetary resources and will strengthen public confidence in the Army's financial management and stewardship.

Accounting Systems

The Army's financial statements are prepared from a consolidation of accounting data reported from various installation systems and the Defense Finance and Accounting Service-Indianapolis Center. The overall accounting system supporting the Army consists of a variety of subsystems.

Field-level accounting systems are fed from an array of inventory, property, procurement, payroll, accounts payable, and other management information systems that create the detailed subsidiary records necessary to support the Army's consolidated financial statements. The field-level accounting systems report the accounting transactions via electronic file transfer to the Headquarters Accounting and Reporting System, located at DFAS-IN, so that financial consolidation and clearance functions can be performed. As part of the consolidation process, DFAS-IN must also record all disbursement/collection transactions made for the Army by other governmental agencies citing Army funds.

The management accounting information system currently supporting the Army is undergoing significant change. For example, conversion from the Standard Army Civilian Payroll System to the Defense Civilian Pay System is nearly complete. The active and reserve components are now paid by one system-Defense Joint Military Pay System. Other actions affecting the current accounting systems environment include the continued consolidation of field accounting offices to centralized Operating Locations (OPLOC). These OPLOCs will help in streamlining and standardizing the flow of accounting data used in the consolidation of the financial statements and will improve the ability of DFAS to efficiently replace existing unique systems with standardized accounting systems. And finally, all field-level accounting systems now have the capability of reporting General Ledger trial balances directly to the DFAS-IN departmental-level system.

Cash Management

The Army continues to search for methods to improve current cash management practices. Examples of cash management initiatives that have resulted from joint efforts between Army and DFAS-IN include: (1) encouraging civilian and military personnel (now mandatory for military) to elect payment of travel settlement vouchers via Direct Deposit/Electronic Fund Transfer (DD/EFT); (2) educating the vendors that provide Army goods and services on the benefits of receiving payments via Electronic Funds Transfer; (3) expanding the use of credit card purchases to reduce cash balances previously maintained by local imprest funds for use in purchasing small-dollar items; (4) reviewing existing cash holdings related to commissary change funds to determine where funds can be turned back to the Treasury because of decreasing customer requirements; and (5) decreasing the need for cash payment advances to government travelers by aggressively promoting use of the government charge card. Implementation of these initiatives allows the Army to reduce cash holding requirements, thereby minimizing the cost to Treasury of borrowing the money.

One of the most visible areas of cash management surrounds payments made to vendors under the Prompt Payment Act (PPA). In simple terms, payments must be made to vendors on time in

order to avoid late payment interest penalties. Additionally, sound cash management not only involves minimizing interest charges but also includes taking full advantage of all discounts offered by vendors, where cost-effective. The Army took advantage of 87 percent of offered discounts during 1996. The Army exceeded its goal for PPA interest penalties by incurring interest penalties on only .01 percent of the total amount of disbursements subject to PPA. Fiscal year 1996 PPA interest penalty and discounts taken are presented in the chart below.

Debt Management

The management of accounts receivable is an important element of the Army's stewardship over public funds. The largest component of Army public receivables involves those debts created at the time soldiers are discharged from the Army. This category has grown dramatically as a result of demobilization and the rapid reduction in the armed forces. Known debts are collected from soldiers' pay at the time of separation. Debts exceeding the soldier's earnings are established as receivables. However, in many cases debts are discovered after the soldier separates, because the separation site does not receive the debt identifying documents in time.

Prompt Payment Data (000s)

	Number	Amount
Discounts Taken	98	\$41,522
Discounts Lost	14	\$2,717
Discounts Lost (% of total)	12.5%	6%
Int. Penalties Paid Goal		2%
Payments Made Subject to PPA	3,020	\$16,175,297
Interest Penalties Paid	88	\$1,986
Int. Penalties Paid (% of total)	2.9%	.01%
Int. Penalties Paid Goal		.02%

Debt from former soldiers represents 40 percent of the total public receivables due to the Army. Other major categories of delinquent debt include foreign

governments (33 percent) and contract food service debt (10 percent). The remaining 17 percent is

attributable to debt from individuals, medical claims, and State/local governments.

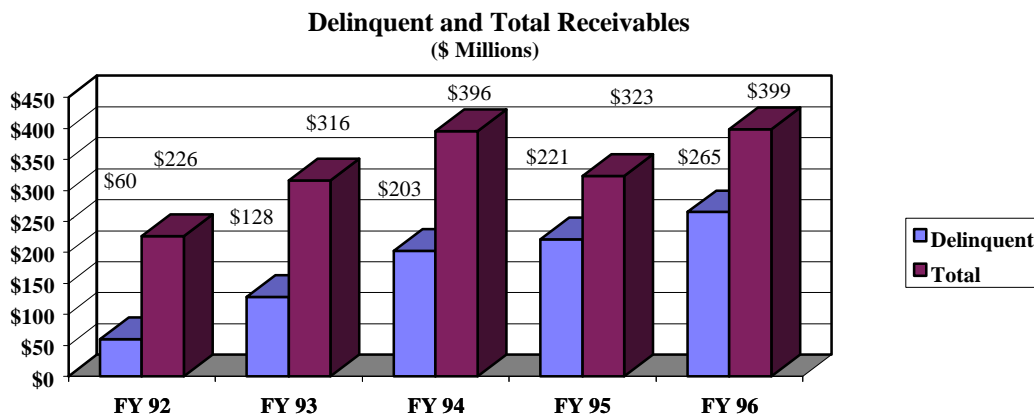
As would be expected, debt from former soldiers also represents the largest component of the Army's delinquent receivables. As of September 30, 1996, \$119 million, or 49 percent of the total delinquent debt, pertains to the "former soldier" category. Delinquent debt represents debt that, 30 days after proper notification, remains uncollected in full from the debtor. During FY 1996, a program developed and tested at one installation was expanded Army-wide. The program stresses improving the flow of information between activities to ensure debts are collected before the soldiers separate. The process appears to be working as we saw debt from former soldiers decreasing from 52% in 1995 to 40% in 1996.

The Army uses the Defense Debt Management System (DDMS) to manage accounts receivable due from former soldiers. Debt collection services include the DDMS capabilities in conjunction with credit bureau reporting, collection agencies, the Justice Department referral system, and locator services. The Internal Revenue Service Tax Offset Program is used to collect public past due accounts. Additionally, DFAS-IN uses information from the

Defense Manpower Data Center to initiate salary offsets for debts due from government employees.

In FY 1996, total public debt increased 23 percent, and total delinquent debt increased by 19 percent. The increase in total delinquent debt is attributed to an 80 percent increase in foreign government debt. This was partly offset by decrease of 11 percent in the debt of former soldiers. The chart below shows a 5 year comparison of delinquent and total receivables.

Debtors are encouraged to pay promptly or incur further charges such as interest, penalty, and administrative costs. Total collections for FY 1996 amounted to \$580 million in principal and \$3 million in interest, penalty, and administrative costs. Management is continuing to seek both policy and systems improvements to increase the efficiency of debt collection. Examples include: (1) validating debt referred for collection to ensure that only valid debts are reported; (2) providing timely feedback to field activities of debt status and emphasizing initiatives for debt avoidance; and (3) enhancing internal training and communication to improve the timeliness of collections.



Canceled Appropriations

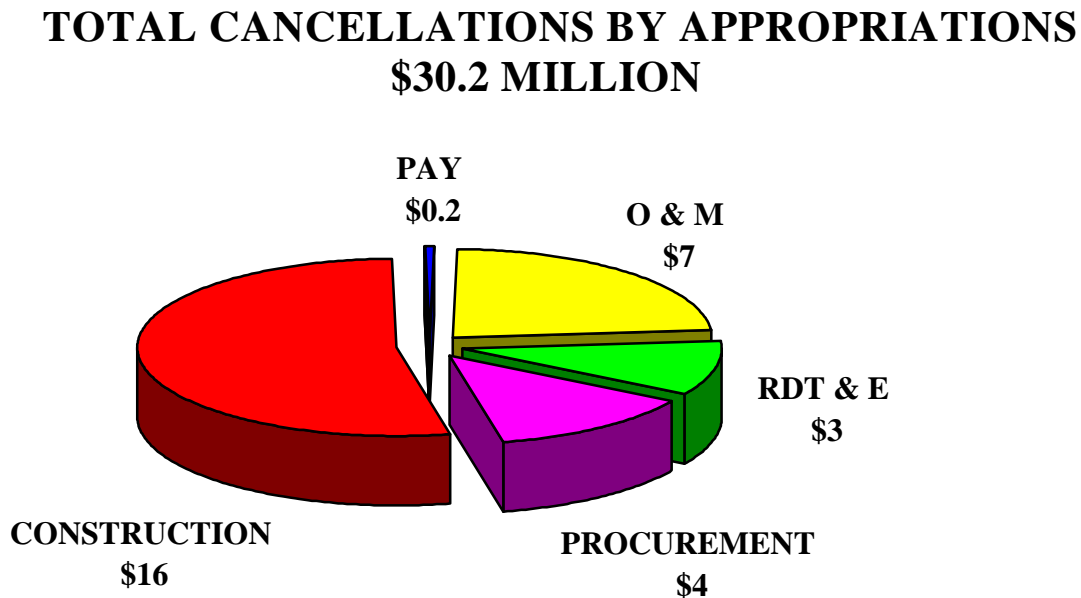
Public Law No 101-510 eliminated all unexpended obligation authority for merged year funds and

established new procedures and controls for liquidating obligated balances after the appropriations expired. Payments can be made from expired appropriation obligations for a 5 year period. The obligations must be canceled after the 5

year period, regardless of whether the Army is still obligated to pay for goods or services associated with the canceled obligations. Installations must use their current year unexpired appropriations (up to 1 percent of the available unexpired balances) to pay these liabilities when the proper invoices are presented for payment.

Detailed appropriations data must be maintained after the end of the appropriation's life cycle since payments may still be required subsequent to cancellation of the original obligation. The accounting network must closely monitor obligations as they approach the end of the appropriations's life cycle to prevent the need for liquidating canceled year obligations through disbursement of unexpired mission funds

Cumulative payments for obligations related to canceled appropriations amounted to \$104.9 million. The following chart indicates the total FY 1996 cancellations by appropriation category.



Problem Disbursements

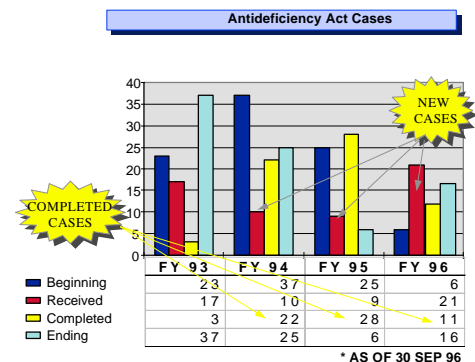
During FY 1996, the elimination of Problem Disbursements (PD) continued to be one of the highest priorities of the Under Secretary of Defense (Comptroller). The Army transacts a significant portion of its business using a centralized clearance system at DFAS-IN which allows an installation to make disbursements citing another installation's funds. The transactions include intraservice transactions by others, interfund billings, and cross-disbursements by others. Problem disbursements represent disbursements of Army funds that have been reported by one of Treasury's Disbursing Station Symbol Numbers (DSSN) to Treasury which have not yet been precisely matched against the specific source obligation giving rise to the disbursement. Problem disbursements represent a significant financial management concern because: (1) accuracy of accounting reports is affected; (2) availability of funds is more difficult to determine; and (3) the required research and resolution process becomes much more labor-intensive as the age of the problem disbursements increases.

Contract payments made by the DFAS-Columbus Center (CO) still represent the largest portion of problem disbursements facing the Army today. The Columbus staff continues to make progress in this area. In an effort to reduce the high level of rejected transactions, DFAS-IN has established a liaison team at the Columbus Center to assist Army fund managers and accounting offices in reconciling disbursements recorded at the installation level to disbursements recorded in the Columbus contract payment system. During FY 1996, all disbursement stations, with the exception of DFAS-CO, continue to use a prevalidation program to confirm that sufficient obligations were available to cover invoices exceeding \$1 million before payment. Effective 1 October 1996, DFAS-CO conducts prevalidation to zero dollars for contracts awarded for FY 1997 and beyond. DFAS-CO prevalidates payments

exceeding \$1 million for those contracts awarded before FY 1997. The DFAS and Army are working towards the goal of being able to prevalidate 100 percent of all invoices prior to payment.

Reportable Antideficiency Violations

The Army had 16 potential Antideficiency Act (ADA) violations under investigation as of September 30, 1996. Of the completed cases during FY 1996, only one was determined to be a violation of the Act. The single case totaling \$100,269,900 resulted when restrictions of Section 101 of the Military Construction Act of 1994 (Public Law 103-110) were violated. The restriction requiring prior approval by the Secretary of Defense for the expenditure of military construction funds for certain cost-plus-fixed-fees contracts has since been removed from the FY 1996 Military Construction Appropriations Act. During FY 1996, the financial management and legal communities have made significant progress in bringing ADA investigations to closure. Revisions to the ADA tracking system have provided added visibility over all phases of the process. Awareness of the fiscal constraints and ADA violations has been heightened by the preparation of an ADA primer that has subsequently published on the ASA(FM&C) homepage of the Web. Additionally, the legal community will be publishing the same document in the *Army Lawyer* magazine.



Financial Management Waiver Program

The Office of the Assistant Secretary of the Army (Financial Management and Comptroller) Business Practices Office implemented a financial management waiver program in FY 1994. The

programs focus was on improving financial management and stewardship of financial resources. The specific objective was to identify ways to generate revenues, reduce costs, streamline financial procedures, or allow for more business-like operations. MACOM and installation commanders were encouraged to submit suggestions to gain the authority needed to implement or test good ideas that were blocked by OSD or Army regulatory restrictions.

Since FY 1994, 40 waiver requests were submitted. Of these requests, 26 were approved/completed, 2 are still in process, and 12 were withdrawn either because they required legislative action or were not supported by the Army headquarters.

FY	Submitted	Approved	In-Process	With-drawn
94	2	1	0	1
95	31	20	1	10
96	7	5	1	1

Many of the waiver requests have had a major impact on the Army. Examples include the following:

- Changed DoD Instruction to allow Morale, Welfare, and Recreation (MWR) activities to generate revenue from the sale of advertising space in their publications. Also, gained approval to advertise public on-post events in off-post commercial publications. Both efforts increased revenues for MWR activities.
- Changed DoD Directive to raise threshold from \$300 to \$2,500 for certain classes of accountable property. This change resulted in better use of personnel.
- Expanded use of the International Merchant Purchase Authorization Card (IMPAC), thereby avoiding costs.
- Obtained approval to eliminate the annual yearend write-down and write-up procedures for reimbursable orders in multiyear appropriations. Achieved efficiencies in use of funds and personnel.
- Gained approval for the Corps of Engineers to accept project orders and roll over funding from year to year until the work is complete. Achieved efficiencies in use of funds and personnel.
- Achieved significant improvements in the way we acquire printing services. The impact of this change resulted in more business-like operations.

OASA (FM&C) recently sent a memorandum to Resource Managers requesting that they continue to look for innovative ways to improve the way the Army does business and to get the top value from every Army dollar.

Objective: *Continue to encourage Army commanders to look for innovative and better ways of doing business through the waiver program.*

Measure: Increase both the number of significant waiver requests and the quality of requests so that a higher percentage can be approved.

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